

Good afternoon Senator Courtney, Representative Lensing, Senator Connolly, Representative Ford, members of the Senate and members of the House of Representatives. My name is Karen Misjak, and I am the Executive Director of the Iowa College Student Aid Commission. Thank you for this opportunity to present information and thoughts about the college financial aid resources available to Iowa families, our growing concerns about the amount of student loan debt incurred by our graduates, and opportunities that we may have in Iowa to help families afford college.

With me today are: Janet Adams, former State Representative and Chair of the Iowa College Student Aid Commission, Michelle Durand-Adams, a long-time member and former Chair of the Commission, Dr. Keith Greiner and Carolyn Small of my staff.

I also would like to thank Mr. Shireman for sharing his information about this very important topic. As you can see, it is an issue that merits our attention.

## Today's Topics

- Commission's Mission and Vision
- Commission's dual role as a state agency and guarantor
- The financial aid and student loan process
- Student loan debt concerns in Iowa
- Opportunities

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Today, I have been asked to share with you the Commission's role in student financial aid, explain the financial aid and student loan processes, and address some concerns about student loan indebtedness in Iowa. We believe that Iowa is at a crossroads where federal and state grants no longer provide enough aid to families who are forced to rely on loans to afford the college of their choice.

We also believe that we need to explore opportunities to help Iowa's students invest in their futures, not mortgage their futures before they leave college.

## Mission

We advocate for, and provide a continuum of services to support, Iowa students and families as they explore and finance educational opportunities beyond high school.



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The Commission has over 40 years of experience connecting students and families with the essential resources and services to make higher education possible. Our mission focuses on providing leadership in promoting the best interests of Iowa students and families as they explore educational opportunities beyond high school.

## Vision

We will be recognized as an innovative and essential resource for college student aid.

- Exceeding the needs of our constituents
- Making college affordable for every Iowan
- Earning the trust and confidence of Iowans



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Our vision at the Commission focuses on three key areas.

- First, expanding our capabilities and customer service with the goal of exceeding the needs of students, parents, colleges and universities, lenders and communities that we serve,
- Second, working with all who have a vested interest in higher education to make affordable college access a reality for every Iowan, and
- Finally, earning the trust and confidence of Iowa citizens as the central source of reliable, unbiased information about financing a college education.

## How We Accomplish Our Mission and Vision

- Educating students, parents, colleges and lenders
  - Choices – career planning for middle and secondary students
  - Publications – 400,000 education pieces distributed last year
  - Training, counseling for colleges and lenders
  - Newsletters and alerts
  - Policy guidance
  - Constituent inquiries for information
  - Delinquency and default prevention

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The Commission accomplishes our mission and vision by providing information free of charge to the citizens of Iowa about college and career planning, and preparing and paying for college.

We administer the Career Information and Decision-Making System, called “Choices,” for middle and high school students to help them plan for the courses they will need to succeed in college.

Last year we distributed over 400,000 educational publications to Iowa students and parents. These include pieces on federal student loan counseling, how to apply for federal and state financial aid, how to select a college that meets the student’s needs, and special focus publications on programs like Academic Competitiveness and SMART Grants, the federal teacher loan forgiveness program, the All Iowa Opportunity Scholarship and Foster Care Grant programs, identity theft, and others we have developed in response to customer requests. Our goal in preparing educational materials is to ensure that Iowa students and parents understand the financial aid process and the opportunities available to them.

We also provided regional trainings and one-on-one counseling to college financial aid administrators and lenders. We issue a monthly newsletter and send timely alerts to colleges and lenders on relevant issues. On a monthly basis, staff responds to hundreds of state and federal student aid policy questions and other constituent inquiries about planning, preparing, and paying for college. We also offer delinquency and default prevention services to all Iowa colleges.

As a state agency, we serve every institution of higher education in the State of Iowa, regardless of whether they participate in our federal student loan program.

## The Commission's Dual Role - State

- The Commission is the state agency that administers Iowa scholarship and grant appropriations
  - FY 08 total appropriations - \$60+ million
  - Annually serves 22,000 students attending Regent universities, community colleges, independent colleges and universities, and proprietary colleges and universities

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The Commission serves a dual role as the administrator of the federal and state college financial aid programs.

The Commission is the designated state agency that administers state-appropriated scholarship, grant, forgivable loan and work study programs, including several federally-funded scholarship and grant programs. Appropriations for these programs totaled over 60 million dollars last year. We report on the state-funded programs to the Iowa General Assembly every January.

The Commission provides state grant aid to over 22,000 students each year from all sectors of the Iowa higher education community. Unfortunately, the buying power of grant aid has decreased and the need for loans to help pay educational expenses has increased.

Note: federally-funded programs include Byrd Scholarship, ETV, LEAP & SLEAP.

## The Commission's Dual Role – Federal

- The Commission is the designated guarantor of the Federal Family Education Loan Program (FFELP) in the State of Iowa
  - Insure federal student loans
  - Prevent borrower delinquency and default
  - Review lender loan servicing and purchase defaulted loans
  - Collect defaulted loans

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Now let's talk about our federal role. In 1978, we were designated as the Iowa guarantor for the Federal Family Education Loan Program, commonly known as "FFELP". We act as an agent for the U.S. Department of Education in administering the Iowa guaranteed loan program.

We insure approximately \$480 million in FFELP loans for lenders each year. If a borrower defaults on his or her loan, the Commission reimburses the lender 97 percent of principal and interest. We currently have federal loan guarantees totaling \$2.8 billion. We serve about 50,000 federal student loan applicants annually.

We provide delinquency and default prevention by working with students before they ever enter repayment. We fund a program that we offer to all Iowa colleges that pays for a student assistant at that college to provide financial literacy programs, and work with peers on campus who may be at risk of borrowing too much. We also work with borrowers who are delinquent on their loan payments to resolve the delinquency before the loan defaults.

If a loan defaults, the lender files a claim for reimbursement with our agency. The claim is reviewed by our staff and we validate the lender's loan servicing records to ensure that the lender followed all federal requirements for servicing loans. We review approximately 6,900 default claims annually, totaling about \$42 million in reimbursement to lenders.

On behalf of the U.S. Department of Education, we collect on defaulted loans. We use tools like administrative wage garnishment and tax offset to obtain payments from defaulted borrowers.

## FFELP Loan Guaranty Agency

- Oversight – establish and enforce policies and procedures for administration of the FFELP
  - Audits
  - Policy guidance
  - Training
  - Technical assistance
- Protect federal fiscal interest
- Ensure proper, effective and efficient administration of the FFELP

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We are charged by the federal department of education with ensuring that all colleges, lenders, servicers and secondary markets who participate in our federal student loan program comply with the requirements for that program. One of our oversight responsibilities is to conduct required audits of lenders and colleges. We also issue policy guidance, conduct training, and provide technical assistance to help our program participants stay on top of federal requirements.

As an agent of the federal government, we are required to protect the federal government's fiscal interest by ensuring effective and efficient administration of the FFELP.



## FFELP Guaranty Agency (cont.)

- College Access
  - Higher Education Reconciliation Act of 2005 formalized role for guarantors to provide resources for College Access initiatives
  - College Cost Reduction and Access Act of 2007 provides a new source of federal funding:
    - College Access Challenge Grant

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The Higher Education Reconciliation Act of 2005 formalized the role for guarantors in promoting college access. That includes providing information on college planning, career preparation and paying for college. Unfortunately, there was no federal funding to support any activities included in this legislation.

The College Cost Reduction and Access Act of 2007 provides a new source of funding to support college access activities in each state.

The College Access Challenge Grant provides federal matching funds totaling \$66 million dollars nationally per year for two years. The Commission has asked Governor Culver to designate the Commission to administer this grant on behalf of the State of Iowa. We believe that we are the appropriate State agency to administer this grant because we work with all sectors of higher education in Iowa.

## Snapshot of the Financial Aid Process

- Student and/or family submits the Free Application for Federal Student Aid (FAFSA)
- College or university receives the FAFSA data and notifies the student of his/her financial aid award
  - Federal grants, work study, loans
  - State aid
  - Institutional aid
- Not all families complete a FAFSA
  - Some students receive private student loans without knowing their federal and state aid eligibility

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Now that you know a little bit about the Commission and our role in student financial aid, I would like to give you a quick overview of the financial aid and student loan processes.

All students who plan to pursue a postsecondary education should complete a Free Application for Federal Student Aid commonly referred to as the “FAFSA”. The FAFSA determines a family’s ability to contribute toward a student’s educational expenses which is commonly referred to as the “Expected Family Contribution”, or EFC. Families with higher income and assets have a higher EFC and qualify for less federal grant aid and subsidized loan funds. College and universities use the EFC to calculate a student’s eligibility for need-based federal, state, and institutional financial aid which includes scholarships, grants, work study, forgivable loans, and student loans.

Unfortunately, the FAFSA is neither short nor easy to complete. For reasons unknown, some families do not complete the FAFSA. Some of these students borrow money from private sources to pay for their education. We have advocated to our Congressional delegation that federal law require a college to determine and award a student’s maximum federal student aid eligibility before certifying a private student loan.

## Who's Who in Federal Student Loans

- **Lenders** – provide capital to make student loans
- **Servicers** – administer student loan portfolios for lenders
- **Secondary Markets**
  - purchase student loans from lenders to free-up capital
  - consolidate federal student loans
  - Service student loans
- **Guaranty Agency** (Commission) – insures otherwise unsecured loans for lenders
- **U.S. Department of Education** (USDE) – regulates federal student loan program
  - Lender for Federal Direct Loan Program



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Before I explain the federal student loan process, I thought I would provide you with a quick overview of the entities involved and their roles.

First, private lenders provide the capital to originate student loans.

Servicers enter into agreements with lenders to provide the systems and processes necessary to properly administer a federal student loan portfolio.

Secondary markets purchase loans from lenders to free up capital for lenders to originate more federal student loans. Secondary markets are frequently loan servicers, and consolidating lenders.

Guaranty agencies provide a loan guarantee, which assures a lender that if a borrower cannot pay, the guarantor will purchase the loan.

The U.S. Department of Education regulates the federal student loan programs. Federal law authorizes two federal student loan programs; FFELP and the Federal Direct Loan Program. Both offer the same federally-backed loans to college students. The major difference is that private lenders fund loans made in FFELP while the U.S. Department of Education is the lender for the Federal Direct Loan Program. Colleges choose to participate in the program that offers the best services for their students.

## Common Student Loans

- Federal Stafford
  - Unsubsidized & Subsidized
- Federal parent and graduate/professional PLUS Loans
- Perkins Loans
- Private Loans

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While there are other types of loans available to students to help pay for college expenses, those listed here are probably utilized most by students and parents.

Stafford, PLUS and Perkins Loans are insured and regulated by the federal government. Loan terms and benefits of federal student loans are guaranteed by federal law. Lenders may offer additional borrower benefits, including interest rate reductions.

Private loans are funded by private lenders. These loans are not insured by the federal government, and are not currently regulated by the U.S. Department of Education. Loan terms are determined by each lender, benefits may be offered at each lender's discretion, and the Commission currently has no oversight in the private student loan business.

## Snapshot of Student Loan Process

- Student chooses lender
- Student completes loan promissory notes & entrance counseling
- College certifies loan
- Lender disburses funds to college

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Generally, if a student's grant aid and family savings do not cover the cost of attendance, the student will borrow money. Colleges determine student eligibility for a federal student loan as part of the student's financial aid package. Students attending a college who participates in the FFELP select a lender. Often, families will seek guidance from the financial aid office in making this selection. Most schools provide a "preferred lender list".

To initiate the loan, a student completes a promissory note. A college must certify a student's federal loan eligibility based on guidance established by federal regulations, and the lender disburses the loan funds to the college to be delivered to the student's account.

## Student Loan Debt Concerns

- College costs are increasing faster than family incomes
- Little increase in federal and state grant aid versus loan debt
- Decreasing family savings
- PLUS loans underutilized
- Increase in private loans
- Direct to consumer marketing of private loans
- Students are not utilizing full federal loan eligibility
- Iowa ranks second in the nation in student loan debt

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Here are some of our concerns about student loan debt. In Iowa, over the last decade, we have seen a significant increase in student loan debt. We are concerned that students are graduating with other forms of debt such as credit cards and private loans. Our research suggests several contributing factors to the increases we see in student loan debt:

College costs are increasing faster than family incomes

There has been little increase in federal and state grant aid versus loan debt

Family savings are on the decline

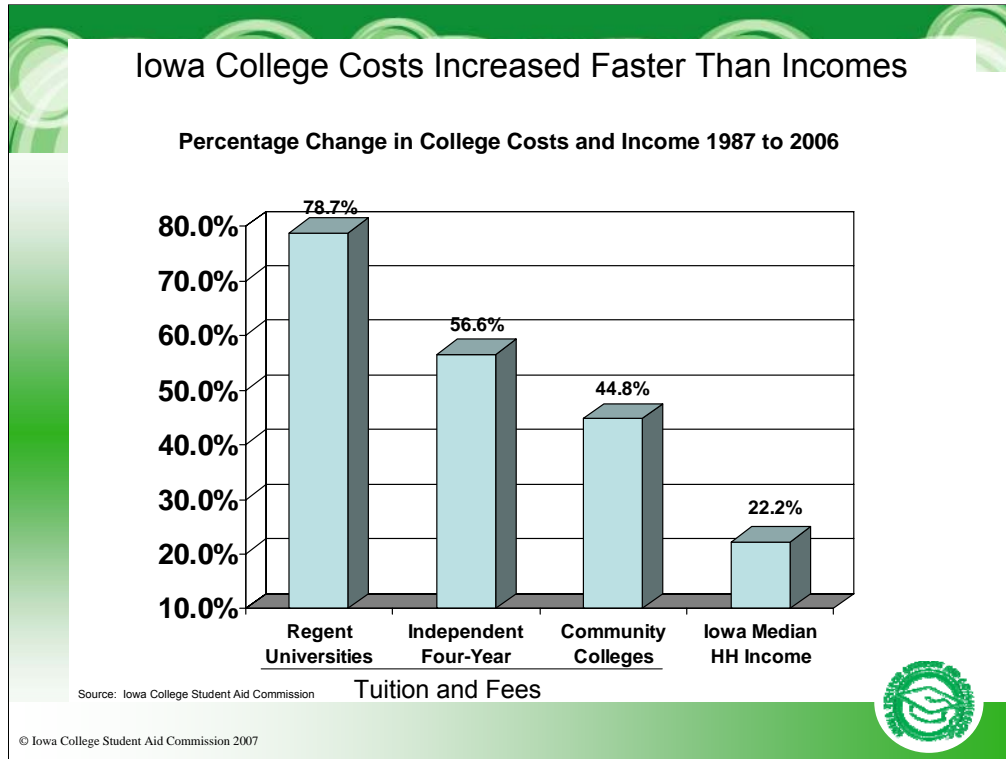
PLUS loans have been underutilized

Private loans, as a source of college student aid, have dramatically increased

Private student loan lenders are marketing directly to students

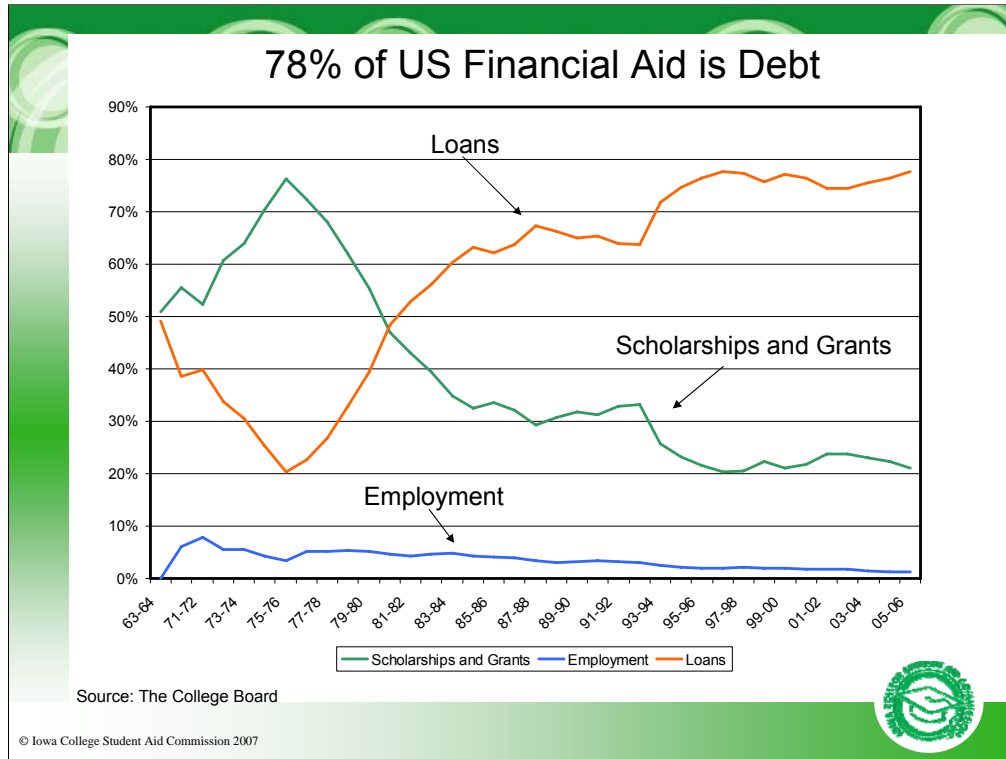
Students are not receiving their full federal loan eligibility

Iowa ranks second in the nation in student loan debt



First, tuition and fees at Iowa colleges and universities are increasing at a higher rate than the Iowa median income.

Between 1987 and 2006, tuition and fees at Regent universities increased almost 80%, tuition and fees at independent 4-year colleges and universities increased almost 57% and tuition and fees at community colleges increased almost 45%. During the same time period, Iowa median income increased slightly more than 22%.



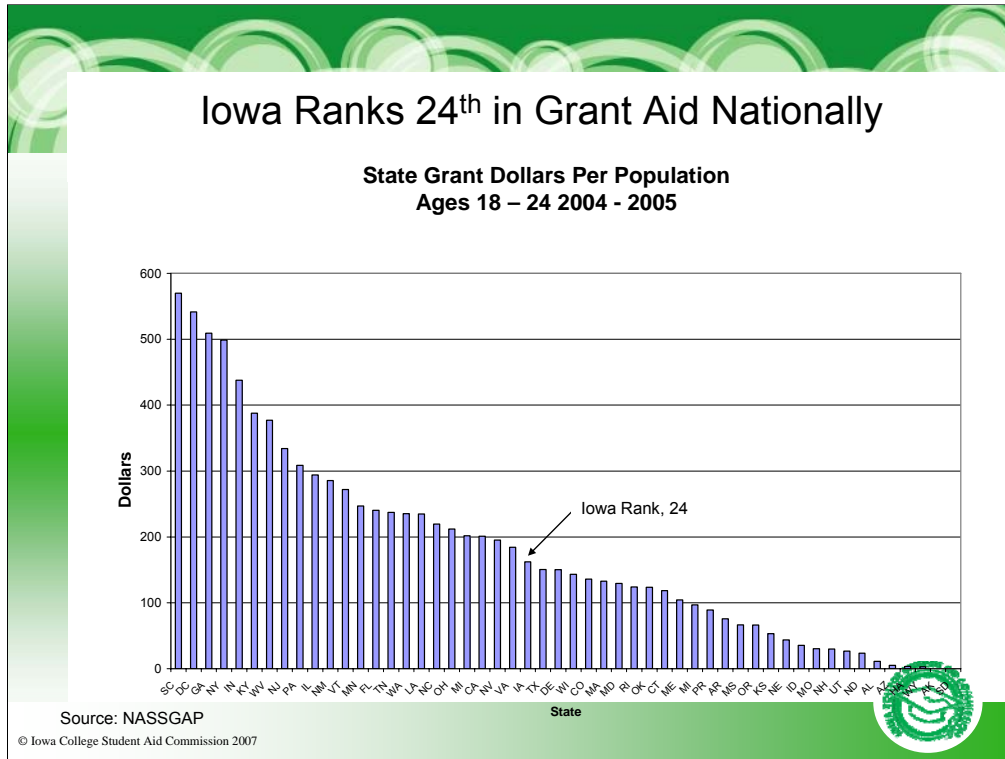
Another contributing factor to the increase in student loan debt is a declining share of federal and state resources going to grant aid.

Federal policy toward financial aid has changed dramatically. Notice the point where the two lines cross in 1981. After that, college financial aid for students in the U.S. became predominantly debt.

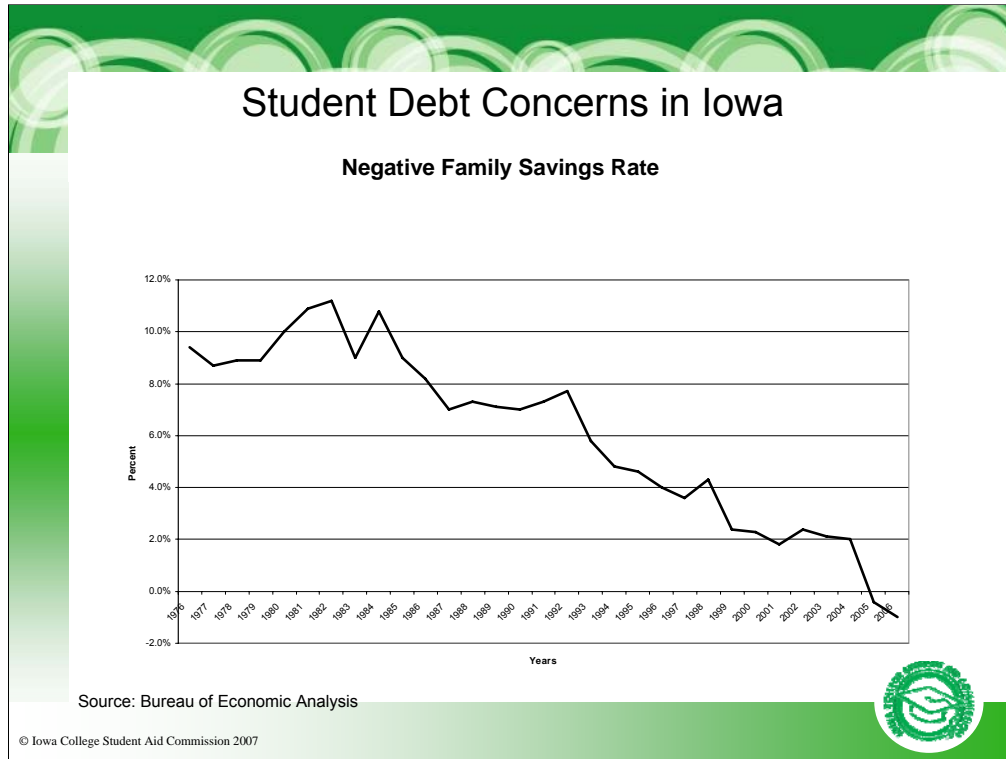
On the right side of the chart we see that loans are continuing to grow as the dominant share of financial aid for students, while scholarships and grants continue to take a lesser and lesser role.

As of 2005, debt was 78% of students' total aid, while scholarships were 21% and employment was only 1%.



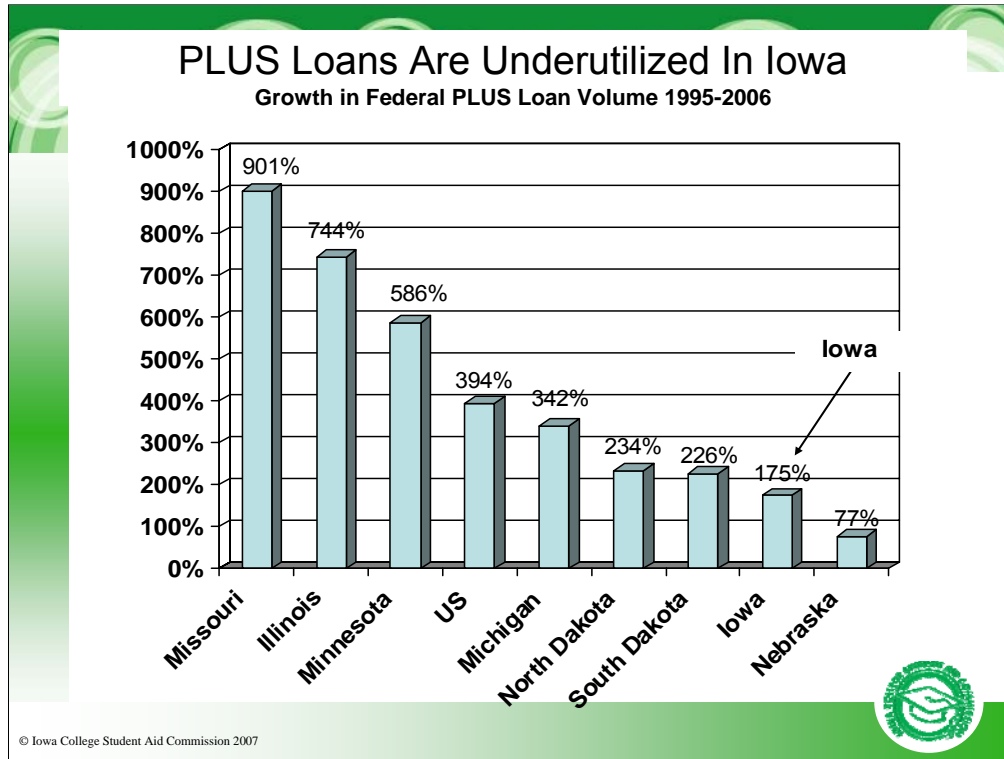


This chart shows where Iowa ranks in the nation for grant aid --- Iowa ranks 24<sup>th</sup>. As a state that prides itself in education, we have an opportunity to invest more state funding into grant assistance to help Iowa students rely less on student loans.



Another contributing factor to our student loan debt crisis is that family savings is declining and less available to help with college expenses. The percentage of family income that Americans put into savings, certificates, and investments is negative for the first time since the Great Depression. This means that families are spending more and saving less.

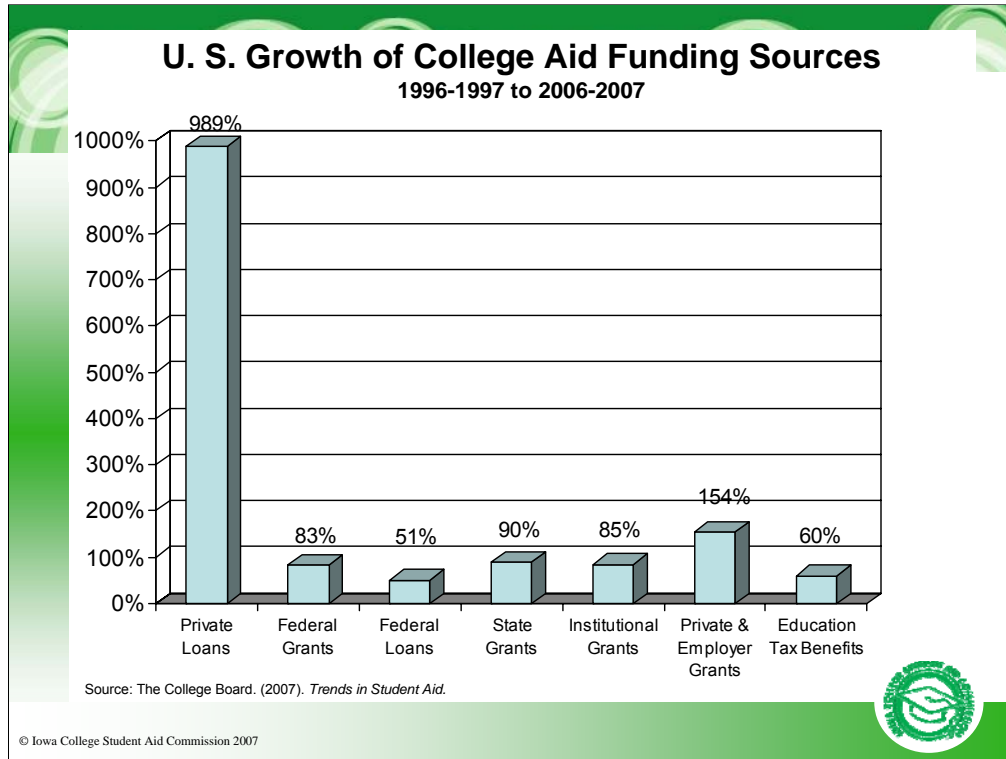
Some families tell us that they had some savings for college, but were forced to use their savings for survival when times got tough. Others said that they saved, but the savings only covered a year or two of their student's educational expenses.



We believe that in the state of Iowa, parent PLUS loans have been underutilized. This chart compares Iowa's use of PLUS loans in the past decade with surrounding states, and the national average.

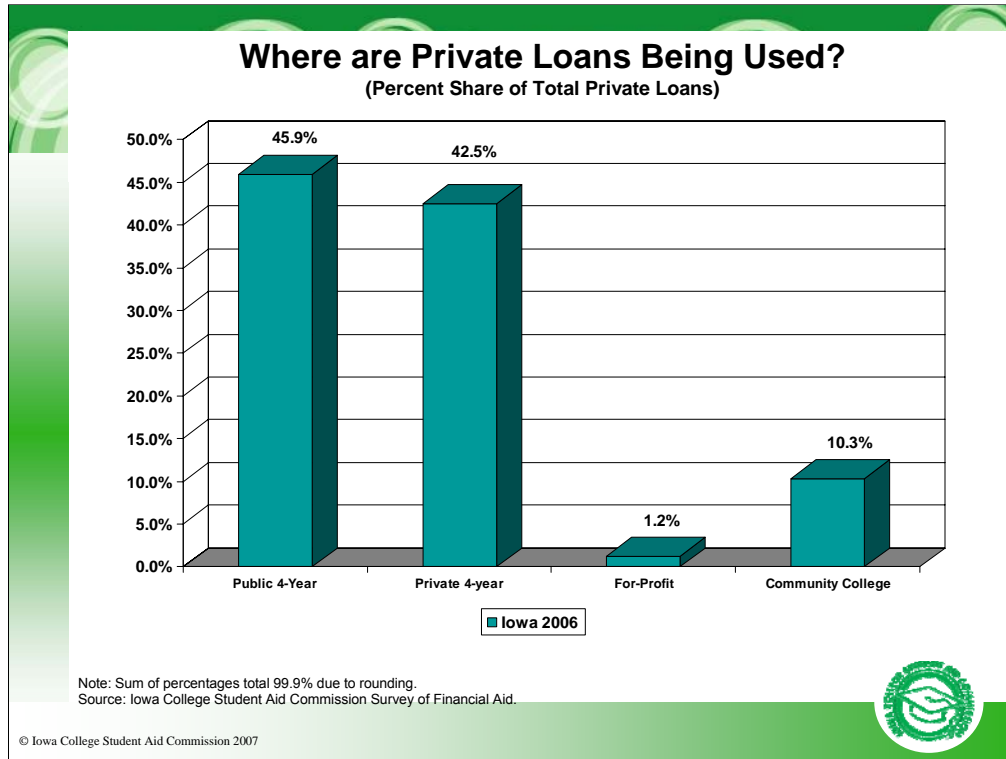
Before I came to Iowa, I was the Director of the Missouri Student Loan Program from 1987 until July of 2000. I was aware that PLUS loans were a way for a parent to share responsibility for their child's education, especially if they had not been able to save. The historically low interest rates for PLUS loans allowed parents who did save to keep their family's savings and borrow economically.

While I was the director of the Missouri guaranty agency, it was our policy to promote PLUS loans, and the Missouri secondary market and lenders supported that policy. This chart shows that Missouri ranks first in the use of PLUS loans among our surrounding states. It is interesting to note that Missouri ranks 38<sup>th</sup> in the nation in debt upon graduation. Another leader in the use of PLUS loans is the state of Illinois, which ranks 30<sup>th</sup> in the nation in debt upon graduation. Compared to the national average, Iowa trails in the use of PLUS loans over the past ten years, and ranks second in the nation in student debt.



Although the utilization of almost all forms of student aid has increased in the U.S. over the last 10 years, the use of private loans has had the most dramatic increase. Data reported just last week by The College Board showed that private loans increased by 989% in the last 10 years. (The College Board reported “Non-Federal” as 894%, and “Private Sector” as 989%. This text has been updated to show the 989% value).

We have data from our financial aid survey showing that Iowa’s private student loan debt over the same time frame increased by 5,000%.



In Iowa, most of the students who have private student loan debt are attending public four-year institutions and private not-for-profit institutions.

45% of students at 4-year public colleges, 42.5% of students at private 4-year colleges, and 10.3% of students at community colleges utilize private loans.

**Private Loans Often Cost Much More**

	Private 30 yr.	Private 10 yr.	PLUS	Consolidated	Federal Stafford
Principal	\$23,000	\$23,000	\$23,000	\$23,000	\$23,000
Rate	10.5%	10.5%	8.5%	6.875%	6.8%
Origination Fee	9.0%	9.0%	0	0	0
Loan on Graduation*	\$31,192	\$31,192	\$23,000	\$23,000	\$23,000
Years	20	10	10	20	10
Monthly Pay	\$252	\$341	\$285	\$178	\$271
Payments	240	120	120	240	120
Total Dollars Repaid	\$60,561	\$40,196	\$34,220	\$42,383	\$32,576
Interest Paid	\$35,286	\$14,921	\$11,220	\$19,383	\$8,987
Fees Paid	\$2,070	\$2,070	\$0	\$0	\$0
Total Difference Private vs. Stafford	\$26,999	\$5,934			

\*Similar estimates may be obtained at [www.finaid.org/college/loans/compareloans.aspx](http://www.finaid.org/college/loans/compareloans.aspx)  
\*Calculated at (\$23,000 @ 9.1% (1.109%)

Here are some examples of various types of private and federal student loans and the repayment outcomes over various repayment periods and interest rates.

We used a [finaid.org](http://finaid.org) calculator to determine the total cost of these loans for our example today. You'll note that the cost of the private loan, even on a comparable repayment term to a federal loan, is much higher. I want to share part of a letter the Governor received recently from a borrower who regrets taking out private loans:

As a new graduate I have become increasingly overwhelmed with my student loan debt. My currently monthly paycheck after taxes is just over \$1,600. The total of my monthly student loan payments is just shy of \$700 a month. During college I was a single mother and relied on my student loans to cover the costs of my education. When I married my child's father two years prior to my college graduation, I was under the impression that I wouldn't be eligible for the low interest loans that were available to me before and took out private student loans. Now that I am a little more experienced I realize that private loans weren't the answer. The current rate on my private student loan is 10.17%. Currently I have about \$35,000 in private loans and \$35,000 in federal loans. My monthly private loan payments are over twice my monthly federal loan payments.

My husband and I both earn a modest living. After the monthly cost of housing, daycare, transportation costs, medical costs and basic food and clothing, there is barely enough to go around. I do not teach in an area where teachers are in shortage or in a low-income district. With that being said I don't think that I would qualify for any of the new programs. The only other option I can find is to seek out states and districts that provide student loan forgiveness for teaching a given number of years. But, I love the Midwest and where I grew up and hope to continue to raise my family here.

## Direct To Consumer Marketing

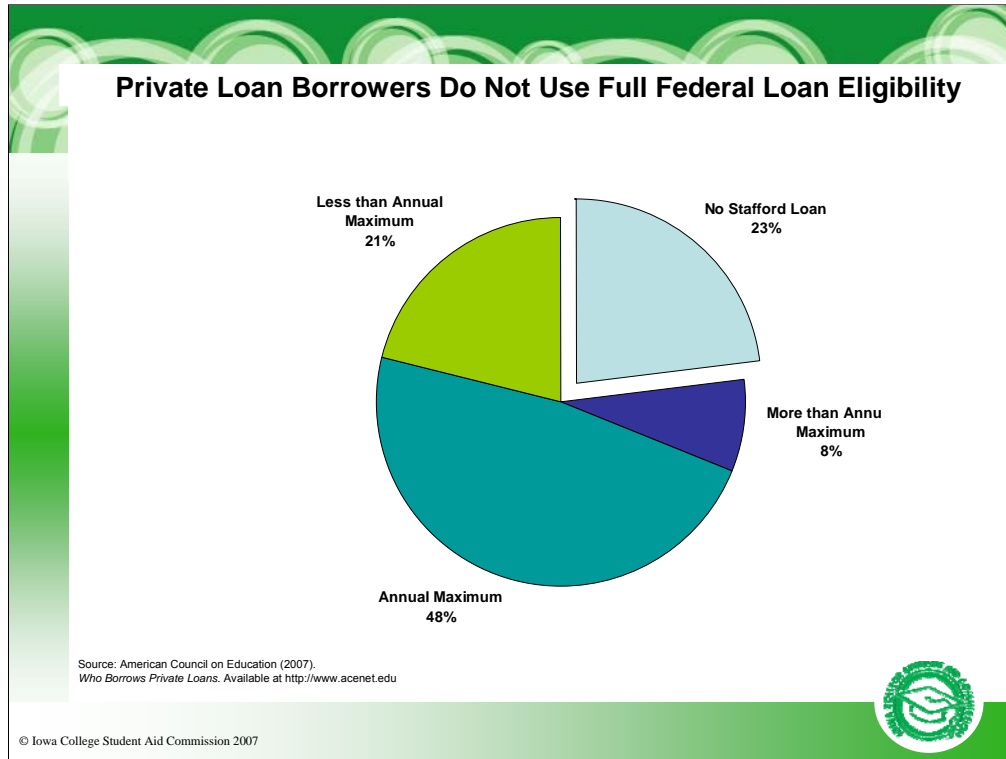
- Lenders market private loans directly to students
- Financial aid administrators may not be aware of direct to consumer loans
- If financial aid is notified, student may lose all federal grant (except Pell) and loan eligibility

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A growing concern in the student loan industry points to the aggressive marketing efforts of direct-to-consumer private loan lenders. I am sure many of you are aware of the television and radio advertisements promoting private loans. They seem to be offering students large amounts of cash for college with a simple loan approval. Many times financial aid officials are never notified of the direct-to-consumer loans. Unfortunately, if they are aware of private loans, adjustments to the student's financial aid award package are needed to avoid overaward provisions of the federal student aid regulations.

Here in Iowa, financial aid offices report that students are losing a portion or all of their federal student aid eligibility, except for the federal Pell Grant, because students are receiving private student loans in amounts that far exceed their financial need.



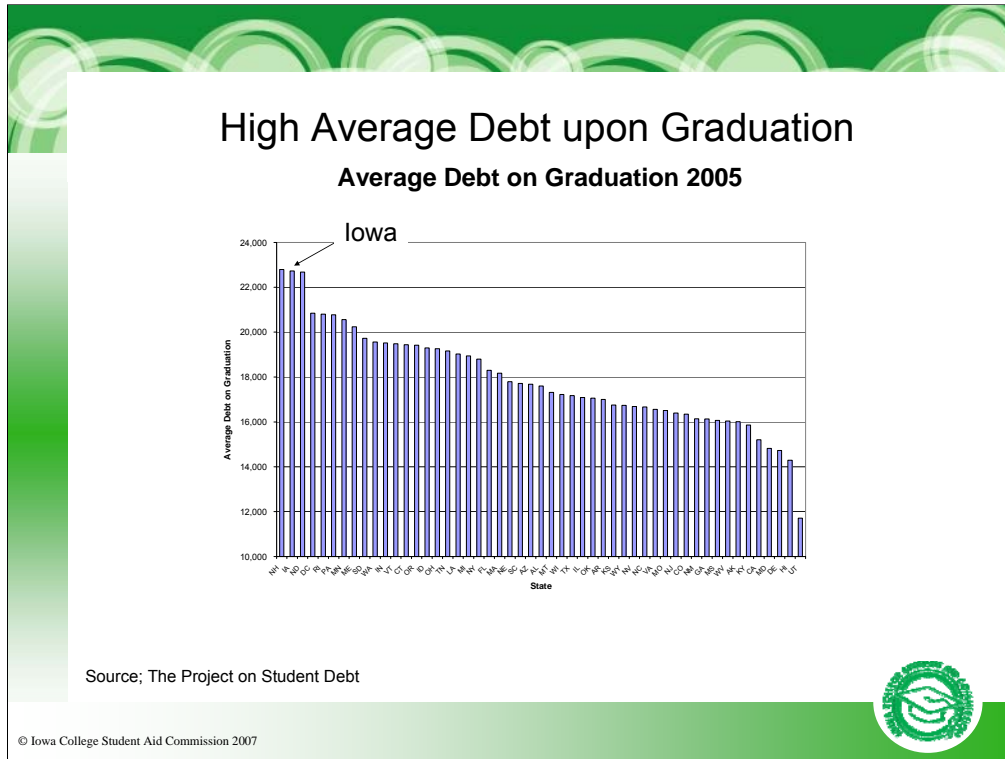
There are a number of reasons why there has been an increase in private loan borrowing.

According to research by the American Council of Education, 23% of undergraduate private borrowers did not take advantage of lower cost federal loans. 21% of those private loan borrowers who also took out federal loans borrowed less than the maximum annual loan limit.

At best, it appears that there is a trend that indicates confusion among borrowers. For a few years, some Iowa colleges co-branded private loans with lenders, that could have lead borrowers to believe that the co-branded loan was an “institutional loan” and not a higher cost private loan.

In addition, it appears that some borrowers perceive the private loan process to be easier than the federal loan process. This may relate to aggressive direct-marketing campaigns that offer easy loan approval and little college interaction.





As you can see, there may not be just one reason why student loan debt has increased to “crisis” levels over the last several years. Unfortunately, regardless of the reason, Iowa remains at the top of the chart, ranking second, or Mr. Shireman suggests, first in the nation among colleges with the highest student debt upon graduation. As Mr. Shireman pointed out, unmanageable student loan debt is putting an enormous strain on Iowa’s college graduates, their career choices, and this State’s economy. We should consider whether Iowa’s college graduates will leave the state for higher paying jobs to manage their debt on graduation.

## Opportunities

- Increase state appropriations for grant aid
- Increase the Commission's role in outreach programs to educate lowans on financing higher education
- The Commission should assume the leadership role in college access initiatives in Iowa

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We just looked at some of the reasons for the growing student loan debt crisis in Iowa. Now we're going to look at some opportunities we have to address these issues.

We need increased state grant appropriations to help curb this problem. We advocate for more funding that will serve all students so they can attend the college of their choice.

We also need to increase funding for work-study to encourage students to take advantage of work opportunities Iowa campuses.

It is clear that we need to enhance services and programs that will better educate our parents and students about preparing, planning, and paying for college. We need to reaffirm the parental role in paying for a college education and help provide solutions and opportunities that better prepare them for when their children leave for college.

The Commission, as a State agency, should assume the leadership role for administering college access initiatives in the state of Iowa, and be the central point of contact for all Iowa citizens so we can ensure they receive unbiased, neutral information about financial aid resources.

## Opportunities

- Enact legislation that requires financial literacy courses in high school
- Work with financial aid officials to help Iowa families make the best financial decisions

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It is important for students to be educated about money management, budgeting, the consequences of borrowing, and how to live within their means. Once a student begins borrowing excessive amounts of money, it becomes a pattern the student follows throughout their college years. For this reason, it would be important for legislation to be enacted that requires financial literacy courses in high school.

I believe we have an opportunity to work collaboratively with financial aid officials to evaluate financial aid processes and practices so that all Iowa families understand the process and programs available to them.

## Opportunities

- Evaluate state-funded education loan programs
- Encourage lenders and secondary markets to focus efforts on providing borrower benefits and working with borrowers to successfully repay
- Enact legislation to require private student loan lenders to report price and volume data

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Perhaps we now have the opportunity to evaluate our state education loan programs. Not only do we need to meet the needs of all Iowa families in financing a college education, but we also need to consider ways to create incentives to keep our best and brightest in this State after graduation.

We also have an opportunity to encourage lenders and secondary markets to re-evaluate their loan products, and offer borrowers benefits that will help them successfully repay their loans.

The Commission has attempted to collect information about terms and conditions of private loans that are being offered to Iowa students through a survey that we distributed earlier this year. Our purpose in this request was to assist Iowa's colleges and students in making comparisons of private loan products. Unfortunately, we received few responses. So, we ask that legislation be enacted to require private student loan lenders who offer their products to Iowa students to report price and volume data to the Commission.

## Opportunities

- Commission to fulfill guarantor leadership role

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When I assumed my position in January of 2005, I determined that the Commission was not fulfilling its role as the State designated guarantor. I was directed by the Commission to make changes that improved services to all those we serve. After evaluating our role in this state, it was determined that Iowa Student Loan had been allowed to take over certain roles that were actually the responsibility of a guarantor. The Commission erred in allowing this to happen.

We terminated contracts with Iowa Student Loan that constituted a conflict of interest and were not in the best interests of the Commission. The first changes that I made were to increase customer service to serve all Iowa colleges and universities so that they could provide the best possible service to their students. We hired client service staff to train and assist financial aid personnel on campuses. We hired a policy analyst to provide guidance to Iowa lenders and colleges on federal student loan requirements. We improved the content of our publications and branding so that Iowa's citizens would recognize materials published by the Commission.

We are not in competition with Iowa Student Loan to provide services to Iowa's colleges and students. The role of a guarantor and a secondary market is very different and defined in federal regulations and federal policy. We are striving to move forward to ensure that we are fulfilling **our** role.

The Commission works effectively and positively with Iowa Student Loan staff in many areas, and we look forward to continuing to work with them in the future. We hope that the relationship between the Commission and Iowa Student Loan will be enhanced by the Commission's renewed contribution toward the partnership between Iowa's guarantor and secondary market. The students and families of Iowa will benefit.

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The State of Iowa has always placed a high value on education. We must invest more in grant aid to all students so that we decrease student debt. We have opportunities now to solve this problem.

Iowa has been the leader in student loan debt for far too long. It is time to be the leader in finding solutions.

Thank you.